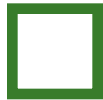


PERAC AUDIT REPORT



Blue Hills Regional School
Contributory Retirement System
JAN. 1, 2003 - DEC. 31, 2006



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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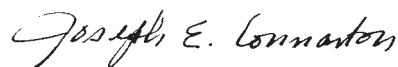
April 22, 2008

The Public Employee Retirement Administration Commission has completed an examination of the Blue Hills Regional School Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2003 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Mary Dundas who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Board Meetings:

Minutes of meetings held between 1/1/03 and 4/30/07 were reviewed for this audit. The auditor found that the Board did not meet “at least once in each month” as required by G.L. c. 32, § 20(5)(a). The Board did not hold meetings in January or November of 2004. The January 2005 meeting was cancelled due to snow and not rescheduled. Additionally, the Board did not meet in September 2005, September 2006, or February 2007.

A review of meeting attendance by Board members revealed all members have significant absenteeism during the audit period. One member missed 25% of meetings held in 2003. Another member’s absenteeism rates were 67% in 2003, 50% in 2004, and 56% in 2005; he resigned at the end of 2005. A third member was absent for 30% of meetings held in 2004, 50% of those in 2005, and all of those held in 2006 during which she was a Board member. Another member missed 36% of meetings held in 2006, while the final member missed 44% of meetings held that same year. As a result, of the forty-three meetings held between January 2003 and December 2006, the full Board was present at only nine of those meetings, or 21% of the time. The result is an attendance rate for several Board members well below the minimum considered reasonable for each of the four years evaluated. Such a level of absenteeism is considered excessive.

Recommendation: The Board must comply with G.L. c. 32, § 20(5)(a) and meet at least once a month. Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board’s responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the Retirement System. The Board should consider adjusting the schedule of Board meetings in order to better accommodate its members. In extreme conditions, it may be necessary to take appropriate action with members who fail to maintain minimum attendance requirements.

Board Response:

Attendance was addressed and as noted in the report, the board member of most concern did resign in 2005.

All members had been reminded of their duty to be in attendance for the monthly board meetings. In 2007, in lieu of illness and hospitalization issues faced by one of our current members overall attendance was up to a percentage of 89%.

During the period under review it should be noted that the Chairman and Executive Secretary did attend 100% of all scheduled meetings.

2. Membership:

A review of payroll records revealed numerous School employees who are not enrolled as members of the Retirement System, although their years of service and hours worked qualify them for membership. The nine un-enrolled employees sampled have worked continuously for a period of several years, with one being continuously employed since 1999. The School has not forwarded

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

information to the Board about employees who are funded through grants or are appointed annually, believing they are not entitled to participate in the Retirement System. This violates G.L. c. 32, § 3(2)(g) which requires department heads to "...furnish to the board within thirty days after employing any new personnel or after the receipt of a written request therefore, a statement giving the name, address, title, rate of regular compensation, duties, date of birth and length and class of service of each employee in his department, and shall notify the board within thirty days of any change in the title, address, rate of compensation, duties or service of any employee in his department."

Recommendation: Eligibility for membership in a retirement system is governed by G.L. c. 32. G.L. c. 32, § 1 defines employees of the Blue Hills Regional Vocational School System as "any person, whether employed for a stated term or otherwise, who is engaged in duties which require that his time be devoted to the service of the system in each year during the ordinary working hours of regular and permanent employees."

G.L. c. 32, § 3(2)(d) states in part that "In all cases involving part-time, provisional, temporary, temporary provisional, seasonal or intermittent employment or service of any employee in any governmental unit ... the board shall have and exercise full jurisdiction to determine such employee's eligibility for membership ...".

The Board must review the status of these employees and enroll those that qualify as members. The Board shall ensure that these employees receive any and all benefits to which they are entitled under the statute. Further, the Board must review a complete School payroll to determine whether there are additional employees eligible for membership who have not been enrolled and take corrective action. The Executive Secretary should proactively perform this same function periodically hereafter.

Board Response:

The Chairman delivered this message to the District School Committee at its meeting of April 1, 2008.

The Executive Secretary will follow up by reviewing the payroll logs of the Blue Hills Regional School to determine whether or not there are additional employees eligible for membership.

The effort will be continued in such a manner that any new employees will be reviewed for eligibility as they come on board at the school.

3. Retirees:

Section 116 of Chapter 46 of the Acts of 2003 specified that members retiring under the Early Retirement Incentive Program (ERIP) retire "not later than December 31, 2003." Four members' pension calculations were approved by PERAC with effective dates of 12/31/03. These approvals

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

were issued in March 2004. A review of the retroactive pension payments made to these retirees revealed that they had been paid retroactive to 2/1/04, instead of 12/31/03. Additional file review revealed that these four members were actively employed in their positions through 1/9/04 and had been paid their regular salaries.

In conjunction with the erroneous retroactive payments, it was also noted that one now-deceased retiree was underpaid \$200 in his first check and had not received the veteran's benefit to which he was entitled because the Executive Secretary believed that retirees whose benefits reach the limit of 80% of their highest 3-year average salary with an 80% benefit cannot receive the veteran's benefit. This is, in fact, incorrect. Board members should refer to PERAC memo #15/1996. Another retiree has been overpaid monthly since May 2004.

One military service buyback involved a member who received six months' service credit, although he had only four months of active service for military training according to his military record. This member does not meet the definition of 'veteran' established under G.L. c. 4, § 7, c. 143 and/or G.L. c. 32, § 1, and should receive neither the veteran's benefit nor creditable service.

Other incongruities were noted with some of these retirement applications. Prospective retirees must file a completed *Choice of Retirement Option Form at Retirement* "on or before the date the board receives (the member's) written application for retirement." In one case, this form was completed the day after the application was completed. In another case, a spouse acknowledged the Option choice thirteen days before it was apparently made. This form was not witnessed. In a third case, the Option form was witnessed four days after it was signed, and spousal acknowledgement was made two days later.

Discussion: Although no explanation for these irregularities was offered by the Executive Secretary, it appears that the Board misunderstood the ERIP parameters detailed in Section 116 of Chapter 46 of the Acts of 2003. Section 116 required that eligible employees retire on or before 12/31/03 and further allowed that "the retirement date for eligible employees of a county retirement board and regional retirement board shall be January 30, 2004." PERAC Memo #25/2003 reiterated the effective dates of retirement followed by "The effective date of retirement for employees of a County Retirement Board or a Regional Retirement Board shall be January 30, 2004. *The Executive Authority must set one retirement date by which all employees receiving incentives under the Section must be retired, except for employees of the retirement board as discussed above.*" It is apparent in the legislation and our explanatory memo that the retirement dates were set so as to have retirement board staff process members' retirements under the ERIP before taking advantage of the incentives themselves. The Board seems to have been confused or misinformed about who is considered an employee of a regional retirement board.

The problems found with missed filing deadlines may have been exacerbated by the Executive Secretary's limited schedule and/or the fact that the Board does not hold meetings every month, as

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

required by G.L.c.32, § 20(5)(a). Whatever the case, administrative errors made in processing this ERIP have jeopardized the retirements of these five members. In our recommendation, we will seek to limit the detrimental effects of the administrative mishandling on these retirees' pensions, while mindful that these members must not unduly benefit from the errors of the Blue Hills Regional Vocational School Retirement System.

Recommendation: As mentioned in the finding, each of these cases contains multiple issues and are diverse enough that required corrections will be detailed on an individual basis.

Retiree #1 – This member was not eligible to retire with ten years of service without the benefit of the ERIP. He was still employed in January of 2004 and completed his buyback in February of 2004, in an effort to comply with the eligibility requirements of the ERIP. This member must be refunded contributions made in January 2004. Hours worked in January 2004 will be considered under G.L. c. 32, § 91.

Retiree #2 – This member must be refunded contributions made in January 2004 and her annuity recalculated accordingly. The Board must then pay this member her retirement allowance for the month of January 2004. Hours worked in January 2004 will be considered under G.L. c. 32, § 91.

Retiree #3 – This member must be refunded contributions made in January 2004 and his annuity recalculated accordingly. The Board must then pay this member his retirement allowance for the month of January 2004. Hours worked in January 2004 will be considered under G.L. c. 32, § 91. In addition, this member was allowed to purchase military service for time which did not qualify him for 'veteran' status. He must be refunded for the buyback and his pension recalculated to reflect the reduced service. In addition, he must reimburse the Board the veteran's benefit, he erroneously received, under the provisions of G.L. c. 32, § 5(2)(b).

Retiree #4 – This member's beneficiary must be paid the veteran's benefit to which the member was entitled at the time of his retirement.

Retiree #5 - This member must be refunded contributions made in January 2004 and her annuity recalculated accordingly. The Board must then pay this member her retirement allowance for the month of January 2004. Hours worked in January 2004 will be considered under G.L. c. 32, § 91. Additionally, the Board must calculate the monthly overpayments made to this member since May of 2004 and receive reimbursement.

The Board must submit any and all paperwork, including calculations, concerning corrections to these members' allowances to PERAC for review. The Board will likely find that waiving of overpayments would not be allowable under G.L. c. 32, § 20(5)(c) by virtue of members' receipt of forms and/or documents containing correct information.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Further, the Executive Secretary is directed to review all pensioners receiving a veterans benefit, in particular, those retired at the maximum 80% benefit to ensure that all are receiving the proper allowance.

Board Response:

It is the belief of this Retirement Board that the Blue Hills Regional Vocational School Retirement System is indeed a “*Regional Retirement Board*” and that under the provisions of Chapter 46 of the Acts of 2003 Section 116 that employees of our system were eligible to work until January 30, 2004. As stated in the first paragraph of Section 3 “**Retirees**” it notes that your review of retroactive payments made to retirees had been paid to a February 1, 2004 date consistent with their date of actual retirement allowed by law by virtue of our employees being members of a Regional Retirement Board.

The Blue Hills community consists of nine towns each of who share responsibility for Pension Appropriations as mandated by PERAC each Fiscal Year. It was our interpretation in 2003 that the Blue Hills Regional Vocational School Retirement System was a “*Regional Retirement Board*” and that opinion is unchanged today.

Retirees:

#1, 2, & 5 Entitlements were based on the January 30, 2004 date noted above. Based on the final determination of which date applies, we will retroactively adjust the respective accounts.

#3 Veteran status will be corrected and benefits will be retroactively adjusted.

#4 This situation has been corrected, the beneficiary’s entitlement has been adjusted.

The board will submit full documentation to PERAC for its review of how the above entitlements were adjusted.

The Executive Secretary is currently reviewing the files of all pensioners receiving a veteran’s benefit.

4. Pension Apportionment:

The Board has neither invoiced nor received payments pursuant to G.L. c. 32, § 3(8)(c) from the Town of Braintree for its portion of pension benefits accrued through members’ service while contributing members of that System. Upon transfer of members’ accounts, the Board determined that the Town of Braintree would have no future liability regarding the members transferred to the Blue Hills Regional School System.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation: The Executive Secretary must review all retirees past and present who had creditable service in the Braintree Retirement System. The Board must submit statements of prior service for these members, along with their pension calculation data sheets, to PERAC in order that calculations can be completed establishing the amount of liability, which must then be billed to and collected from the Braintree Retirement System.

Board Response:

The Board has reviewed all retirees past and present who had creditable service in the Braintree Retirement System and will forward the data to PERAC for review and approval.

Administrative Observations

It was noted that federal income taxes are not being withheld from the beneficiary payments of deceased members. The system should be cautioned that properly completed W-4 Forms should be requested from all persons that receive benefits. It is the responsibility of the system to report those benefits accurately to the respective taxing authority. Benefits are not generally taxable to the Commonwealth of Massachusetts.

Board Response:

We are currently requesting W-4 forms from all members and beneficiaries receiving monthly distributions and will withhold Federal taxes for those recipients.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

		AS OF DECEMBER 31,			
		2006	2005	2004	2003
Net Assets Available For Benefits:					
Cash		\$149,225	\$160,453	\$174,650	\$194,214
PRIT Cash Fund		100,444	100,352	100,176	100,087
PRIT Core Fund		6,565,790	5,793,191	5,326,958	4,905,962
	Total	\$6,815,460	\$6,053,996	\$5,601,784	\$5,200,263
Fund Balances:					
Annuity Savings Fund		\$1,446,130	\$1,359,576	\$1,318,980	\$1,373,458
Annuity Reserve Fund		702,649	688,812	719,284	586,060
Pension Fund		0	0	0	0
Military Service Fund		0	0	0	0
Expense Fund		0	0	0	0
Pension Reserve Fund		4,666,681	4,005,609	3,563,520	3,240,745
	Total	\$6,815,460	\$6,053,996	\$5,601,784	\$5,200,263

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2003)	\$1,361,397	\$503,517	\$0	\$0	\$0	\$2,272,159	\$4,137,073
Receipts	163,897	14,909	375,749	0	34,972	984,675	1,574,202
Interfund Transfers	(138,383)	138,372	16,100	0	0	(16,089)	(0)
Disbursements	(13,453)	(70,737)	(391,849)	0	(34,972)	0	(511,011)
Ending Balance (2003)	1,373,458	586,060	(0)	0	0	3,240,745	5,200,263
Receipts	154,590	20,932	231,445	0	36,249	624,444	1,067,659
Interfund Transfers	(204,786)	204,786	301,669	0	0	(301,669)	0
Disbursements	(4,281)	(92,494)	(533,115)	0	(36,249)	0	(666,138)
Ending Balance (2004)	1,318,981	719,284	(0)	0	0	3,563,520	5,601,784
Receipts	157,774	20,725	379,685	0	46,499	598,070	1,202,753
Interfund Transfers	(43,505)	43,505	155,981	0	0	(155,981)	0
Disbursements	(73,674)	(94,702)	(535,665)	0	(46,499)	0	(750,541)
Ending Balance (2005)	1,359,576	688,812	(0)	0	0	4,005,609	6,053,997
Receipts	232,638	21,205	377,507	0	52,014	882,618	1,565,981
Interfund Transfers	(94,837)	94,837	221,545	0	0	(221,545)	0
Disbursements	(51,247)	(102,205)	(599,052)	0	(52,014)	0	(804,518)
Ending Balance (2006)	<u>\$1,446,131</u>	<u>\$702,649</u>	<u>(\$0)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,666,681</u>	<u>\$6,815,460</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2006	2005	2004	2003
Annuity Savings Fund:				
Members Deductions	\$146,078	\$140,651	\$130,757	\$148,195
Transfers from Other Systems	78,849	7,971	0	0
Member Make Up Payments and Re-deposits	26	1,390	16,626	2,938
Member Payments from Rollovers	0	0	0	0
Investment Income Credited to Member Accounts	<u>7,686</u>	<u>7,762</u>	<u>7,206</u>	<u>12,764</u>
Sub Total	<u>232,638</u>	<u>157,774</u>	<u>154,590</u>	<u>163,897</u>
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	<u>21,205</u>	<u>20,725</u>	<u>20,932</u>	<u>14,909</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	24,427	29,950	18,996	22,980
Received from Commonwealth for COLA and Survivor Benefits	23,828	35,534	12,450	27,769
Pension Fund Appropriation	<u>329,251</u>	<u>314,200</u>	<u>200,000</u>	<u>325,000</u>
Sub Total	<u>377,507</u>	<u>379,685</u>	<u>231,445</u>	<u>375,749</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited to the Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to the Expense Fund	<u>52,014</u>	<u>46,499</u>	<u>36,249</u>	<u>34,972</u>
Sub Total	<u>52,014</u>	<u>46,499</u>	<u>36,249</u>	<u>34,972</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	0	0	0	0
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	70	4	0	0
Miscellaneous Income	0	0	0	0
Excess Investment Income	<u>882,548</u>	<u>598,065</u>	<u>624,444</u>	<u>984,675</u>
Sub Total	<u>882,618</u>	<u>598,070</u>	<u>624,444</u>	<u>984,675</u>
Total Receipts	<u>\$1,565,981</u>	<u>\$1,202,753</u>	<u>\$1,067,659</u>	<u>\$1,574,202</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2006	2005	2004	2003
Annuity Savings Fund:				
Refunds to Members	\$51,247	\$73,674	\$0	\$13,453
Transfers to Other Systems	<u>0</u>	<u>0</u>	<u>4,281</u>	<u>0</u>
Sub Total	<u>51,247</u>	<u>73,674</u>	<u>4,281</u>	<u>13,453</u>
Annuity Reserve Fund:				
Annuities Paid	102,205	94,702	92,494	70,737
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>102,205</u>	<u>94,702</u>	<u>92,494</u>	<u>70,737</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	503,561	459,504	450,236	352,267
Survivorship Payments	35,132	33,279	25,169	24,753
Ordinary Disability Payments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Accidental Disability Payments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Accidental Death Payments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Section 101 Benefits	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
3 (8) (c) Reimbursements to Other Systems	60,359	42,882	57,710	14,829
State Reimbursable COLA's Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>599,052</u>	<u>535,665</u>	<u>533,115</u>	<u>391,849</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Salaries	14,101	13,716	13,820	13,206
Administrative Expenses	2,152	2,539	1,526	3,038
Management Fees	35,760	30,245	20,902	18,729
Fiduciary Insurance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>52,014</u>	<u>46,499</u>	<u>36,249</u>	<u>34,972</u>
Total Disbursements	<u>\$804,518</u>	<u>\$750,541</u>	<u>\$666,138</u>	<u>\$511,011</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,				
	2006	2005	2004	2003
Investment Income Received From:				
Cash	\$0	\$0	\$0	\$0
Short Term Investments	0	0	0	0
Fixed Income	0	0	0	0
Equities	0	0	0	0
Pooled or Mutual Funds	210,439	182,565	170,867	144,710
Commission Recapture	0	1,398	1,842	0
Total Investment Income	<u>210,439</u>	<u>183,963</u>	<u>172,709</u>	<u>144,710</u>
Plus:				
Realized Gains	418,985	336,687	334,776	131,970
Unrealized Gains	568,170	565,916	463,312	875,173
Interest Due and Accrued – Current Year	0	0	0	0
Sub Total	<u>987,156</u>	<u>902,603</u>	<u>798,088</u>	<u>1,007,143</u>
Less:				
Paid Accrued Interest on Fixed Income Securities	0	0	0	0
Realized Loss	0	0	0	(11,799)
Unrealized Loss	(234,142)	(413,514)	(281,967)	(92,735)
Interest Due and Accrued – Prior Year	0	0	0	0
Sub Total	<u>(234,142)</u>	<u>(413,514)</u>	<u>(281,967)</u>	<u>(104,534)</u>
Net Investment Income	<u>963,452</u>	<u>673,052</u>	<u>688,830</u>	<u>1,047,320</u>
Income Required:				
Annuity Savings Fund	7,686	7,762	7,206	12,764
Annuity Reserve Fund	21,205	20,725	20,932	14,909
Military Service Fund	0	0	0	0
Expense Fund	52,014	46,499	36,249	34,972
Total Income Required	<u>80,904</u>	<u>74,987</u>	<u>64,387</u>	<u>62,645</u>
Net Investment Income	<u>963,452</u>	<u>673,052</u>	<u>688,830</u>	<u>1,047,320</u>
Less: Total Income Required	<u>80,904</u>	<u>74,987</u>	<u>64,387</u>	<u>62,645</u>
Excess Income To The Pension Reserve Fund	<u>\$882,548</u>	<u>\$598,065</u>	<u>\$624,444</u>	<u>\$984,675</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2006			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$149,225	2.2%	100%
PRIT Cash Fund	100,444	1.5%	100%
PRIT Core Fund	<u>6,565,790</u>	<u>96.3%</u>	100%
Grand Total	<u>\$6,815,460</u>	<u>100.0%</u>	

For the year ending December 31, 2006, the rate of return for the investments of the Blue Hills Regional School Retirement System was 16.14%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Blue Hills Regional School Retirement System averaged 11.32%. For the twenty-two year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Blue Hills Regional School Retirement System was 10.15%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Blue Hills Regional School Retirement System effectively rescinded their supplementary investment regulations upon fully investing with PRIT.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Blue Hills Regional School Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$667.92 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Blue Hills Regional School Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

April 29, 1986

Election Rules Supplementary rule authorizing a 30-day notice requirement for board election.

July 17, 2002

The Board has adopted Travel Supplemental Regulations under the provisions of M.G.L. c. 7, § 50 and M.G.L. c.32, § 21(4). (Regulation available upon written request)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the District School Treasurer who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Charles Gisondi

Appointed Member: Virginia Frew **Term Expires:** 12/31/08

Elected Member: Patricia Brooks Term Expires: 12/31/07

Elected Member: Jane Sissons Term Expires: 12/31/07

Appointed Member: John Wieliczki Term Expires: 12/31/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	Commercial Crime Policy issued to
Ex-officio Member:)	Massachusetts Association of
Elected Member:)	Contributory Retirement Systems
Appointed Member:)	Fidelity and Employee Dishonesty
Staff Employee:)	Limit \$1,000,000 Deductible \$10,000

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2006.

The actuarial liability for active members was	\$4,103,461
The actuarial liability for non-vested terminated members was	28,819
The actuarial liability for retired members was	<u>4,945,588</u>
The total actuarial liability was	9,077,868
System assets as of that date were	<u>6,053,996</u>
The unfunded actuarial liability was	<u>\$3,023,872</u>
The ratio of system's assets to total actuarial liability was	66.7%
As of that date the total covered employee payroll was	\$1,648,885

The normal cost for employees on that date was 8.0% of payroll

The normal cost for the employer was 4.5% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.0% per annum
 Rate of Salary Increase: Service based table with ultimate rate of 4.75%.

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2006	\$6,053,996	\$9,077,868	\$3,023,872	66.7%	\$1,648,885	183.4%
1/1/2004	\$5,200,263	\$8,358,268	\$3,158,005	62.2%	\$1,535,743	205.6%
1/1/2002	\$4,782,125	\$6,567,359	\$1,785,234	72.8%	\$1,581,565	112.9%
1/1/2000	\$5,384,239	\$6,039,415	\$655,176	89.2%	\$1,446,233	45.3%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retirement in Past Years										
Superannuation	2	0	1	3	0	3	3	4	1	2
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	0	0	0	0	0	0	0	0
Total Retirements	2	0	1	3	0	3	3	4	1	2
Total Retirees, Beneficiaries and Survivors	39	39	40	41	41	42	44	47	48	50
Total Active Members	45	53	53	53	55	56	53	46	46	44
Pension Payments										
Superannuation	\$229,208	\$224,981	\$234,333	\$260,247	\$277,724	\$297,073	\$352,267	\$450,236	\$459,504	\$503,561
Survivor/Beneficiary Payments	15,857	16,229	16,718	20,953	21,581	26,015	24,753	25,169	33,279	35,132
Ordinary Disability	7,477	7,422	7,419	3,590	1,134	0	0	0	0	0
Accidental Disability	2,811	2,878	2,964	3,053	3,145	0	0	0	0	0
Other	17,794	35,638	26,694	11,865	17,794	102,355	14,829	57,710	42,882	60,359
Total Payments for Year	<u>\$273,147</u>	<u>\$287,148</u>	<u>\$288,128</u>	<u>\$299,708</u>	<u>\$321,378</u>	<u>\$425,443</u>	<u>\$391,849</u>	<u>\$533,115</u>	<u>\$535,665</u>	<u>\$599,052</u>

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